



## Free Stock Pick from our Dividend Growth Model Portfolio for January 2025

We are more than halfway through the earnings season, and the results have been [record-beating](#) and stocks are hitting all-time highs.

For those who wonder if everything is as optimal as the markets suggest, our CEO David Trainer has been hosting [Earnings Watch Parties](#) the last few weeks.

The parties focus on revealing the truth hidden behind companies' earnings reports. He dives into the biggest and most popular companies' earnings (e.g. \$ABNB, \$AMZN, \$CSCO, \$DASH, \$LYFT and more) as well as stocks requested by the audience. David unveils the real cash flows of the business and how they compare to the expectations for future cash flows baked into their stock prices. In these sessions you get a 30-minute free trial to our Institutional Members-only [reverse discounted cash flow \(DCF\)](#) model. Register [here](#) for the next one.

One way to protect your portfolio during any market cycle, including throughout earnings season, is to invest in companies with consistent and growing dividends that generate enough free cash flow ([FCF](#)) to afford those dividend payments. This week's free stock pick does just that.

The report below is not as in depth as a [Long Idea](#) report, but it will give you a good understanding of how our research combines fundamental research with expectations investing.

We hope you enjoy this free research on this month's featured stock for the Dividend Growth Model Portfolio. Feel free to share this report with friends and colleagues.

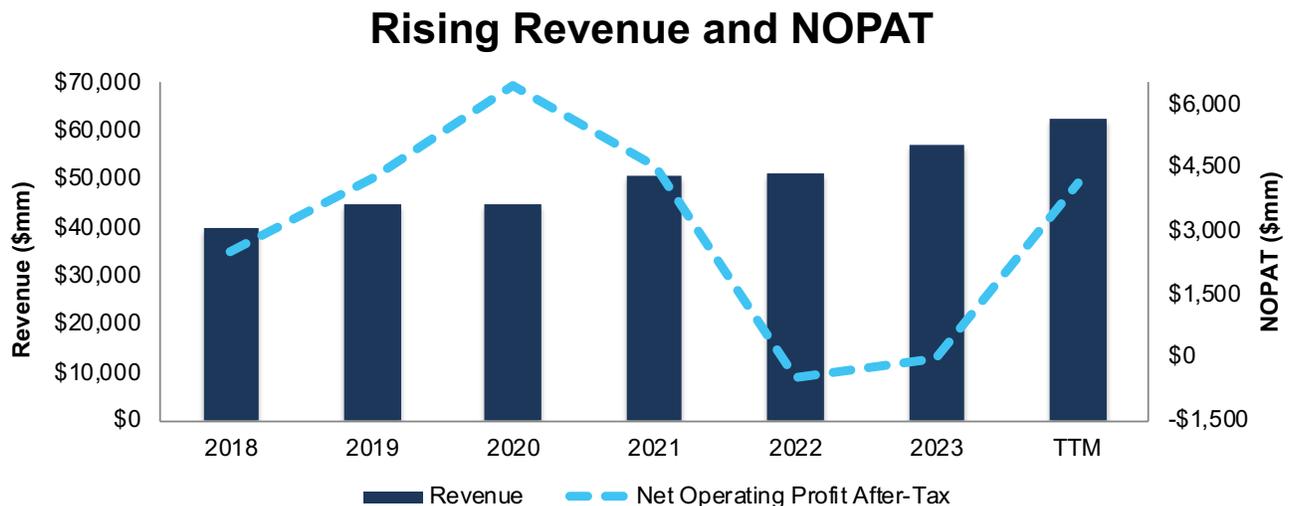
We update this Model Portfolio monthly. January's [Dividend Growth Model Portfolio](#) was updated and published for clients on January 30, 2025.

### Stock Feature for January: Allstate Corp (ALL: \$189/share)

Allstate Corp (ALL) is the featured stock in January's Dividend Growth Model Portfolio.

Allstate has grown revenue and net operating profit after tax ([NOPAT](#)) by 8% and 9% compounded annually, respectively, over the last five years. The company's NOPAT margin increased from 6.3% in 2018 to 6.6% in the TTM, while [invested capital turns](#) rose from 1.5 to 2.6 over the same time. Rising NOPAT margins and invested capital turns drive return on invested capital ([ROIC](#)) from 10% in 2018 to 17% in the TTM.

**Figure 1: Allstate's Revenue & NOPAT Since 2018**



Sources: New Constructs, LLC and company filings



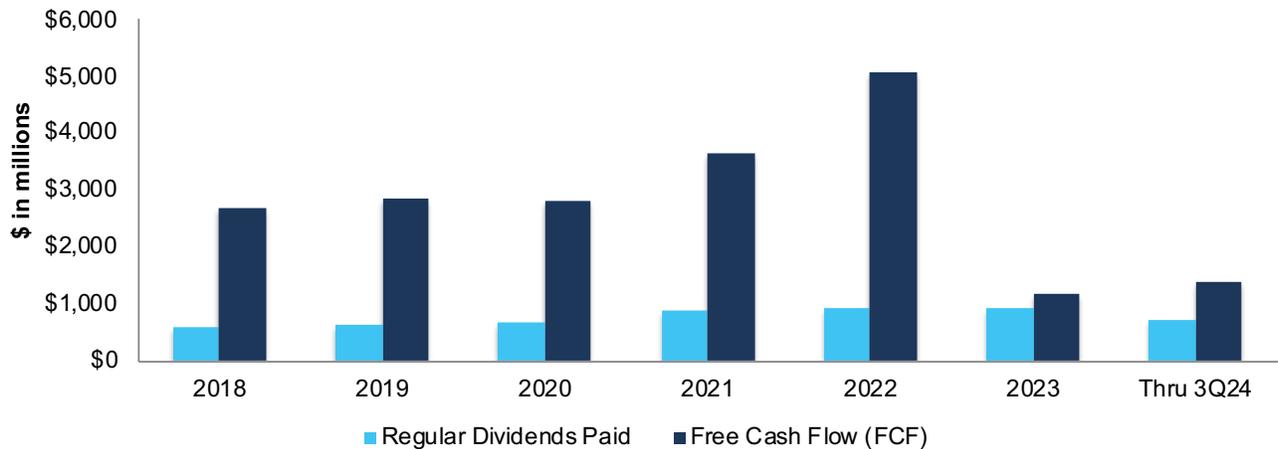
**Free Cash Flow Supports Dividend Payments**

Allstate has increased its regular, quarterly dividend from \$0.46/share in 1Q18 to \$0.92/share in 4Q24. The quarterly dividend, when annualized, equals \$3.68/share and provides a 1.9% dividend yield.

More importantly, Allstate’s cumulative free cash flow (FCF) easily exceeds its dividend payments. From 2018 through 3Q24, Allstate generated \$19.6 billion (38% of current [enterprise value](#)) in FCF while paying \$5.4 billion in dividends. See Figure 2.

**Figure 2: Allstate’s FCF vs. Dividends Since 2018**

**Cumulative FCF Exceeds Dividend Payments**



Sources: New Constructs, LLC and company filings

Companies with FCF well above dividend payments provide higher-quality dividend growth opportunities. On the other hand, dividends that exceed FCF cannot be trusted to grow or even be maintained.

**ALL Is Undervalued**

At its current price of \$189/share, Allstate has a price-to-economic book value (PEBV) ratio of 0.8. This ratio means the market expects Allstate’s NOPAT to permanently fall 20% from current levels. This expectation seems overly pessimistic given that Allstate has grown NOPAT by 9% compounded annually and 3% compounded annually over the past five and ten years, respectively.

Even if Allstate’s:

- NOPAT margin falls to 6% (equal to five-year average and below TTM margin of 7%) and
- revenue grows just 3% compounded annually (compared to 6% compounded annually over the last decade) for the next decade,

the stock would be worth \$228/share today – a 21% upside. [See the math behind this reverse DCF scenario.](#) In this scenario, Allstate’s NOPAT would grow just 1% compounded annually through 2033.

Add in Allstate’s 1.9% dividend yield and a history of dividend growth, and it’s clear why this stock is in January’s Dividend Growth Stocks Model Portfolio.

**Critical Details Found in Financial Filings by Our [Robo-Analyst Technology](#)**

Below are specifics on the adjustments we make based on Robo-Analyst findings in Allstate Inc.’s 10-K and 10-Q:

Income Statement: we made over \$550 million in adjustments with a net effect of removing over \$250 million in [non-operating expense](#). Clients can see all adjustments made to Allstate’s income statement on the GAAP Reconciliation tab on the Ratings page on our website.



Balance Sheet: we made just over \$7 billion in adjustments to calculate invested capital with a net increase of just under \$7 billion. The most notable adjustment was for [asset write downs](#). See all adjustments made to Allstate's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made over \$4 billion in adjustments, with a net effect of decreasing shareholder value by over \$2 billion. The most notable adjustment to shareholder value was for [preferred stock](#). See all adjustments to Allstate's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

*This article was originally published on [February 14, 2025](#).*

*Disclosure: David Trainer, Kyle Guske II, and Hakan Salt receive no compensation to write about any specific stock, style, or theme.*

*Questions on this report or others? Join our [online community](#) and connect with us directly.*



## *It's Official: We Deliver the Best Fundamental Data in the World*

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

### **Best Fundamental Data in the World**

In [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by S&P Global’s (SPGI) *Adjustments* individually.” – pp. 14, 1<sup>st</sup> para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2<sup>nd</sup> para.

### **Superior Models**

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [ as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5<sup>th</sup> para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2<sup>nd</sup> para.

### **Superior Stock Ratings**

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Harvard Business School. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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